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SUBJECT: MEXICAN TELECOMMUNICATION POLICY TARGETS TELMEX

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Summary

1. (SBU) On August 3, as part of the Ninth Meeting of the High Level Consultative Commission (HLCC) on Telecommunications, Rafael del Villar, Under Secretary for Communications at the Secretariat of Communications and Transportation (SCT), briefed a small group of Department of State (DOS), Federal Communications Commission (FCC), and Department of Commerce (DOC) officials on Mexican President Felipe Calderon's telecommunications policy. SCT Secretary Luis Tellez Kuenzler joined the meeting and supported del Villar's assertions. Del Villar emphasized that SCT's primary concern is the lack of penetration of landline telephone and broadband services. Among other proposals, del Villar suggested that while participating in the upcoming Security and Prosperity Partnership in Canada, the three Leaders propose to dramatically lower long distance interconnection rates to make calling within North America within reach for even the poorest citizens. With the "social good" argument as a backbone, it appears that the SCT and possibly the Calderon Government may try to tackle the Mexican telecom monopoly, Telmex's dominance in the sector. End Summary.

Clarifying Roles in the Sector

2. (SBU) Summarizing the current state of Mexico's telecom sector, del Villar said the Calderon administration will seek to clarify the roles SCT, the Federal Telecommunications Commission (Cofetel), and the Federal Competition Commission (Cofeco) play in the sector. He highlighted the political role of the SCT as a planning and policy body with the power to decide which radio frequency bands will be auctioned and when. He stated that, for the first time since 1990 (when Telmex was privatized), the SCT is more willing to support competition and openness than the regulator (Cofetel), a situation he termed a "political anomaly." Also, for the first time in Mexican history, the President is keenly aware of the important issues facing the telecom sector and is creating a political climate that is conducive to moving forward with telecom policy. He pointed out that Cofetel is

a part of the SCT (and hence Executive Branch) and not an independent regulator like the FCC in the U.S. He also stressed that the SCT currently enjoys an excellent working relationship with Cofeco.

Social Good Argument

3.(SBU) Del Villar observed that the rural areas of Mexico have been devastated by migration. He cited "heroic families" in which the husband travels to the U.S. to work to send money home, yet his wife is left in Mexico, unable to call her husband in the U.S. because of prohibitively high telecommunication rates. High fixed and mobile interconnection rates; the lack of unlimited calling plans; and the need for technology to decrease overall telecom costs drive SCT telecom policy. He reiterated Mexico's commitment to "Calling Party Pays," but also his concern with the level of tariffs. He might seek to implement a "Bill and Keep" regime in mobile telephony in Mexico in which each network agrees to terminate calls from the other network at no charge. Cofetel is in the process of developing its Fundamental Technical Plan for Interconnection and is holding a second period for public comment that ends August 10.

Broadband Penetration Lacking

14. (SBU) Del Villar suggested possible policy changes to promote broadband penetration in Mexico. Broadband network "unbundling" would foster increased network investment by outside players. Del Villar added that Mexico would label this proposal "leasing of the last mile" to avoid any

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negative stigma. He noted that while this policy would be tough to implement, it was nonetheless being considered because SCT has not seen sufficient investment by Telmex in its network. Second, he suggested that Mexico allow the resale of broadband in the marketplace. Third, because approximately twenty-six percent of Mexican mobile users do not have access to a fixed line, he would like broadband to be offered on a stand-alone basis instead of solely with a package. Last, he suggested one option for Mexico might be public-private partnerships in which the government might be the owner of spectrum that is operated by a local government or community mechanism. Mexico, he continued, has the spectrum available to do this with the ultimate goal being increased rural access to the Internet.

Broadcasting Sector in the Hands of the President

15. (SBU) Throughout the conversation, del Villar was careful to reiterate that he was referring only to Mexican telecommunications policy, not broadcasting. Because of the political fallout that licensing a third broadcasting network would cause, the decision on whether to move forward rests with President Calderon. Del Villar did mention that through changes in the existing licenses of current broadcasters, the Government may impose a "must carry / must offer" policy. He noted SCT fears Telmex collusion with Televisa in the video services market to secure cheap content, while squeezing out other smaller potential competitors.

Spectrum Negotiations

16. (SBU) The U.S. and Mexican delegations also held spectrum negotiations during a three-day HLCC working level meeting (July 31-August 2) immediately prior to the Ninth HLCC on August 3. As a result, at the Ninth HLCC the principals signed three documents:(A)A Permanent Protocol concerning the allotment and use of the 138-144 MHz band for terrestrial non-broadcasting radio communication services along the U.S.-Mexican border; (B) A Joint Statement of the principals

at the Ninth HLCC; and (C) A Directory of Bilateral Issues for 2007-2009 (DBI). In terms of ongoing negotiations to reconfigure the allotment plan of the 800 MHz band, del Villar noted that the SCT is actively engaged in negotiations with Nextel Mexico and Intercomunicacion del Pacifico, a subsidiary of Telmex, the two most affected Mexican carriers. The SCT also requested assistance from the FCC in determining a realistic cost for network carrier actions to relocate the affected Mexican carriers within the 800 MHz band as well as to move them to an alternate band.

¶7. (SBU) On the topic of increasing broadband penetration by means of near-term spectrum auctions, (para.4 above), in the three-day working level meeting, SCT and Cofetel officials pressed U.S. representatives to identify additional radio bands suitable for broadband applications and place them in the DBI so that new cross-border sharing agreements could be reached. These bands included: 420-450 MHz, 698-806 MHz ("700 MHz"), 2300-2400 MHz and 3300-3700 MHz bands. All of these bands were included in the DBI except the 2300-2400 MHz which will be discussed informally in upcoming HLCC working level teleconferences. (The U.S. and Mexico currently have an agreement in place for the 2310-2360 MHz band for the Digital Audio Radio Satellite Service used extensively by U.S. providers XM Satellite Radio and Sirius Satellite Radio). SCT and Cofetel also mentioned their interest in amending the existing Protocol for Personal Communications Services in the 1850-1990 MHz band to also support wireless broadband.

The three HLCC documents that were signed will be posted shortly on the Department's public website at :
<http://www.state.gov/e/eeb/cip/c622.htm>.

Improvements for Cross Border Security Communications

¶8. (SBU) Representatives of Mexico's Secretariat of Public

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Safety (SSP) and the U.S. Department of Homeland Security reported in the working level meeting that the HLCC Security Communications Task Group plans to complete its Plan for the Long Term Solution for Cross Border Security Communications shortly and submit the Plan to the HLCC for adoption. The Plan reportedly includes establishment of six cross border microwave links in the 7-8.5 GHz band that will allow voice, data and video intercommunications between communications centers of law enforcement agencies on both sides. In the principals meeting, DOS also mentioned the need for a second phase of the "Long Term Solution" that would address reciprocal licensing for mobile and portable equipment of public safety agencies on both sides as well as improving mutual-aid communications for specific individual public safety agencies on each side. These are the continuing actions described in reftel, and the Plan will be distributed to border consulates when completed.

Del Villar Proposes a North America-wide Calling Area

¶9. (SBU) Lowering interconnection rates is high on SCT's agenda, justified to the public and the industry by the "social good" argument. At the meeting, del Villar and Tellez said that if the U.S., Canada and Mexico could come to an agreement to trilaterally lower interconnection rates for telephony across the region, this would help the GOM to convince Telmex to relinquish some hold on the sector.

Comment

¶10. (SBU) Telmex seems to be feeling the pressure as there is already speculation in the industry that the monopoly will file an injunction against Cofetel's proposed interconnection plan. The SCT appears to have firmly taken control of telecommunications policy in Mexico and has an arsenal of

ideas for progress in the sector. In telecommunication negotiations, we are seeing unprecedented levels of positive engagement from our Mexican counterparts. SCT Under Secretary del Villar has a lot of energy and progressive

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ideas, now it's a matter of how much momentum he can gather to push for change in the industry. End comment.

¶11. (U) This cable was prepared jointly with collaboration of members of the U.S. delegation from EEB/CIP.

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